During a subsequent telephone conversation with the Examiner on or about August 2, 2006, the Examiner indicated her agreement that the claimed subject matter would not have been rendered obvious by the cited references and stated that the rejections would be withdrawn. The Examiner also indicated that she planned to update her search for possible other relevant prior art.

On about September 12, 2006, the Examiner contacted the undersigned attorney and stated that she had updated her search and that she expected a notice of allowance to be mailed within the next few days, pending final approval of her supervisor. That was again confirmed in a telephone call by applicant's attorney to the Examiner on or about September 25, 2006.

To date, applicant still has not received the notice of allowance. Therefore, this response is being submitted. Applicant respectfully requests issuance of a notice of allowance.

<u>Objective evidence of non-obviousness</u>

As noted in applicant's appeal brief, the United States Supreme Court has recognized additional factors that should be considered in determining whether or not claimed subject matter is obvious under 35 U.S.C. § 103. The Supreme Court called those factors "secondary considerations." *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966), and other court opinions have called them "objective evidence of nonobviousness." *See, e.g., In re Rouffet*, 149 F.3d 1350, 1355, 47 USPQ2d 1453, 1456 (1998). Those factors include the presence of a long-felt but unmet need for the invention and commercial success of the invention. *Id.*

Although applicant submitted such objective evidence of non-obviousness, there is no indication in the Office action that that evidence was considered.

The Court of Appeals for the Federal Circuit, however, has stated that evidence of secondary considerations <u>must always</u> be considered – even at the examination stage before the Patent and Trademark Office. *In re Sernaker*, 702 F.2d 989, 996, 217 USPQ 1, 7 (Fed. Cir. 1983).

In addition to the objective evidence of non-obviousness previously submitted (*see* the summary in applicant's appeal brief and the exhibits submitted with the brief), applicant also draws the Examiner's attention to the following articles which relate to the Artist Pension Trust (APT) launched by MutualArt, Inc., the assignee of the pending patent application. The APT is based upon ideas disclosed and claimed in the pending application.

The enclosed exhibits, which are copies of the publications listed below, provide further support for the conclusion that the claimed subject matter of the pending application would not have been obvious:

(1) F. Schmidt, Artnet, La Dolce Pensione, November 25, 2005 (Exhibit 9).

(2) K. Pender, "Artists Pension Flourishes," San Francisco Chronicle, June 18, 2006 (Exhibit 10)

(3) N. Raghavendra, "Arts & Commerce in a single frame," The Economic Times, April 5, 2006 (Exhibit 11).

(4) P. Sullivan, "Fund frees artists from market vagaries," Financial Times, April 10, 2006 (Exhibit 12).

For example, Exhibit 11 states that the "idea is <u>unique</u>" and is "<u>definitely the first of its kind</u>."

Exhibit 9 states that a former director of the San Francisco Museum of Modern Art, the Whitney Museum of American Art in New York and the Institute of Contemporary Art in Boston, who is involved in the APT, "was <u>initially skeptical</u> but quickly won over to the project."

Exhibit 10 explains that a pension expert, who is a senior fellow with the Brookings Institution, understood that "It's a <u>really creative</u>, interesting idea."

Exhibit 12 indicates some of the initial skepticism that artists had toward the subject matter of the pending application. As explained by the article, the particular artist's reaction

"was typical of the profound skepticism" that artists initially expressed. "But three years into the project, the idea behind it is looking viable – and profitable for all the parties involved."

The foregoing articles provide yet further objective evidence of non-obviousness and indicate that the subject matter of the pending claims addresses a long-felt but unmet need for the invention. That evidence also indicates that despite initial skepticism, artists and others with experience in the art world and the world of finance have recognized the creativity and value of the claimed subject matter.

Conclusion

Applicant submits that the application is in condition for allowance and respectfully requests that issuance of a notice of allowance

Please apply any charges or credits to deposit account 06-1050.

Respectfully submitted,

Date: 11/13/06

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EXHIBIT 9

La Dolce Pensione

artnet

Nov 25, 2005, Artnet

A retirement fund for artists? That doesn't sound anything like the life of a wild and crazy, careless about conventions. Creativity requires a certain amount of existential risk, and the dream of every young artist is to catapult, through talent alone, to a level of financial independence of which the normal worker could only dream. But not everyone will become a Gerhard Richter or a Jeff Koons. So, do you set aside your pocket money every month like a good citizen? Or invest in stocks or real estate? Okay, but with what? The only capital which young artists have in abundance, at the start of their careers anyway, is their own artwork.

Exactly this realization is the basis of the global fund Artist Pension Trust (APT), subsidiary of the New York based MutualArt, Inc. APT provides emerging artists the possibility of beginning a long-term investment at exactly the time when they seldom have monetary resources. In return, they deposit art, representative of their body of work at the given time, in regular increments over the course of twenty years. The fund's performance is based on both the market success of the individual artist and of the collective group of artists who make up APT.

When a work is profitably sold from the trust after a certain period of time, forty percent of the net proceeds goes directly to the artist, forty percent to the common fund. The trust management keeps the remaining twenty percent. Currently MutualArt exclusively manages the trusts, and serves as the investment vehicle as well. Later, most of the management duties will be transferred to the individual Trusts, which will be rewarded with a larger share of the fees. In addition to the most recently founded APT:Berlin, trusts are already operating in New York, Los Angeles and London. David A. Ross, co-founder and president of APT, says that trusts in Beijing, Mexico City and Sao Paulo will be opening soon. India is viewed with an enormous potential as well.

The financial model was developed by Moti Shniberg, the founder and chairman of ImageID, and Dan Galai, professor of finance and business administration at the University of Jerusalem. Galai has years of experience at renowned American universities and as an investment advisor. He specializes in financial and investment models which operate on a barter-based principle. David A. Ross, who served as director of the San Francisco Museum of Modern Art, the Whitney Museum of American Art and the Institute of Contemporary Art in Boston, was initially skeptical but quickly won over to the project by Galai and Shniberg. As the in-house art expert, he modified the fund to fit the specifics of the art market. And with this, the three were in for an exciting project which will be lucrative for more than just the artists.

Dividends will be distributed at the latest every five years. Put simply, APT is a participation-based fund for artists relying on the profitable secondary market in which the artists usually cannot take part. APT is a retirement fund, wealth manager, investment model – and an art institution – all in one. An integral part of this ingenious idea is to not just store the works and wait for their values to increase, but rather to actively take part in their market presence, for example through exhibitions comprised of works in the respective trusts. Especially helpful to curators, there will be an online database of works in the collections: institutions can easily see which works are held, and APT can place these works in important shows and biennales. This makes sense for everyone involved, and strengthens the market for the artist in the Trust.

Participation in this innovative model is not available to everyone, however. Everyone who makes art can apply, but being accepted requires making it through the selection committee whose job is to evaluate the

future market prospects of the artists. For the Berlin Trust, the top-class jury is made up of Yilmaz Dzewior, Massimiliano Gioni, Lars Bang Larsen and Aurelie Voltz. All curators receive a small percentage of the Trust's financial success.

Susanne Prinz is the director of APT:Berlin; she sits on the selection committee and is responsible for the remaining tasks. Unlike the name initially suggests, APT is not a charity for the broad masses of artists, but rather – and very legitimately – a sophisticated business model in which elite players are gathered who, upon entrance into the Trust, already have the best chances for success.

It is therefore not surprising that Ross tells us of a camaraderie among the artists within the Trust. Of course every participant is convinced he will succeed, and pleased to help his fellow artists who don't quite make it. And should the impossible happen – well, even better: the others will take care of him. There are few doubts that the project will be successful.

In the end it will be decisive who makes the most profit from this enterprise, as we've learned from the past that the only certain winners in art funds are those who run them. Apparent in this specific case is that APT works together with the artists and can build up a comprehensive art collection, in a relatively short period of time, which by virtue of its breadth and size will likely strengthen the value of the individual works. The financial commitment of the financiers, in this case MutualArt and its investors, is surely not insubstantial, as a global management network must be built from the ground up. Unfortunately the concrete numbers are kept private, but the market values of the individual pieces and of the collection altogether will likely be transparent.

Even in an Investor's worst-case scenario, the sales of all works held by APT at their lowest market value would probably still surpass the initial investment. Fifty artists per year are to be accepted alone in APT:Berlin, and after five years the Trust will have 750 works in its collection. After ten years this number will climb to 2750. It's easy to calculate what this means if each work were only worth 10,000 dollars. It is easy to see the final dimensions of this project when one takes into account that there will be at least ten such Trusts existing parallel to each other. Added to this is the fact that singular contributions from the most successful artists can reach well into the six- and even seven- figures.

The role which APT will have in the secondary market is clear. Which other dealer or collector has the possibility to act in the market with comparable breadth or institutional back-up? APT is a one-stop shop and potential Goliath. Investing in one's financial future is nothing but a good thing, but only the future will show whether the fund's managers act responsibly and with the best interests of the artists in mind. The only thing that diminishes our respect for this very intelligently designed project is really our concern for those artists who could not convince the selection committee. But then, no one cared about them in the first place either!

- Florian Schmidt

EXHIBIT 10

Artists Pension Flourishes

San Francisco Chronicle

Jun 18, 2006, San Francisco Chronicle

Two years ago, I wrote about a pension fund for visual artists that was just getting off the ground. It was such a novel idea -- participants contribute works of art to a trust and share in the long-term commercial success or failure of the group -- that I decided to see how it is faring.

It turns out that MutualArt, the New York company that set up and manages the Artist Pension Trust, has been pretty successful in getting people to join. Almost 300 young and mid-career artists have joined or agreed to join trusts in New York, Los Angeles, London, Beijing or Mexico City. New trusts are planned for Mumbai and Bangkok.

The company has had more trouble securing the same sort of tax benefits for the trusts that so-called qualified retirement plans provide. But it is pressing its case with the Internal Revenue Service and pension regulators.

For now, each trust is structured as a limited liability corporation with no tax benefits, says Pamela Auchincloss, director of the Artist Pension Trust New York.

Each trust has a selection committee made up of gallery owners, museum curators and other art professionals. The committee invites up-and-coming artists to participate. Each trust is limited to 250 artists.

The first and largest, in New York, has almost 100 artists. The Los Angeles trust has 54 including Bay Area artists Chris Finely, Josh Podoll, Anna Von Mertens and Libby Black.

MutualArt's executive vice president is David Ross, former director of the San Francisco Museum of Modern Art.

Each participant agrees to contribute up to 20 works over 20 years, more in the early years, fewer in the later years. The artist and selection committee jointly choose the pieces.

"They didn't want my best work. They wanted representative work," says Karl Haendel, a Los Angeles artist whose drawings and environmental installations sell for $3,000 to $30,000 each.

The artist acquires a pro-rata interest in the trust, sort of like shares in a mutual fund.

The trusts have collected more than 500 paintings, sculptures and other pieces. They are being stored near each trust's headquarters, but they can be loaned to museums or galleries.

Although the artist physically surrenders the creation, "the art remains the property of the artist" until it is sold," says Bijan Khezri, chief executive of the Artist Pension Trust.

"Legally speaking, we have an option to sell the art." That way, there is no income tax to the artist at the time the trust "acquires" the art, Khezri says.

Norman Stein, a law professor with the University of Alabama, says, "I would want an opinion letter from an attorney or a private letter ruling from the IRS saying this (the contribution of art to the trust) will not result in tax. But then again, I'm cautious."

Dan Galai, executive vice president of finance with MutualArt, says his firm has obtained a favorable opinion from law firm Hogan & Hartson on this issue but has not sought an IRS ruling.

In seven to 10 years, MutualArt plans to start selling pieces from the trusts, says Auchincloss.

When a piece is sold, MutualArt will take 20 percent plus "certain holdbacks" off the top. (By comparison, a gallery typically takes 50 percent of the sales price.) Half of the remaining proceeds will go to the artist who created that piece and the other half will be divided by members of the trust.

As pieces are sold, artists will receive cash from the trust, which will be treated as taxable income. The artists can take their after-tax income and spend it, put it in an Individual Retirement Account or invest it elsewhere.

The managers will try to sell pieces in a way that maximizes long-term revenue.

If a major museum expresses an interest in a piece, "we might be willing to take a lesser price (than a collector would pay) because it places the piece strategically and enhances the value of the rest of that artist's work," says Auchincloss.

The hope is that a few artists in each trust will hit it big enough to provide a decent retirement income to members of the group.

"It's a basic economic risk-sharing arrangement," says pension expert Mark Iwry, a senior fellow with the Brookings Institution. "It's a really creative, interesting idea.

Podoll, a San Francisco artist, says he agreed to join because "the artists they assembled on the West Coast were peers I really respected. I said, 'Wow, if I can get tied financially into the roller coaster of these artists, that is really good for me.' Just like fashion, things go into style and out of style. I can't say I'll always be in style. It would be nice to have some financial stability through that."

Like many artists approached by the trust, Podoll had some trepidation.

"My dad is in finance. He looked it over pretty carefully. He wanted to know how real it was. It's not like an IRA. It doesn't have the same nontaxable status. That's something he felt wasn't the best. Other than that, he thought it was a pretty good idea, a pretty innovative idea," he says.

Some of Podoll's friends chose not to participate. "Some people are selling their work really fast right now. It all sells before they have made it. In the short term, it didn't make sense for them to give up work they could sell for $10,000 for something that hasn't proven itself yet," he says.

Artist Daniel Attoe says he turned down the Los Angeles trust, "not because I didn't think it was a great opportunity, but because I recently started slowing down my rate of production, and simultaneously the demand for my work has gone up. As a result, I don't have much to spare and it makes more sense for me now to focus on getting my work into more diverse collections and shows, and invest the money independently."

Dave Muller, a Los Angeles artist whose work is selling briskly, says he joined the trust in part because "it forces you to keep some of your own work" for future sale.

His drawings and paintings sell for $25,000 to $30,000 each. He says if his trajectory goes even higher, he will be "giving up a small portion" of what he could have earned. "If I'm not that successful, then this is going to help me."

Muller and virtually every other artist I talked to said a big reason they joined the trust was to forge a community.

"I think it's important for artists to form a community and support each other. We talk about it, we go to each other's openings. This could be an economic form of community," says Von Mertens.

Haendel adds, "In the art world, there are a lot of left-leaning tendencies. I believe in all these liberal philosophies about health insurance, pensions. Oddly enough, in our world we have none of that. We are in a capitalistic, no-holds-barred, pure financial market. I signed up for this because it will offer a little bit of protection."

The trusts might offer a bit more protection if MutualArt succeeds in getting them approved for tax-deferred retirement vehicles.

Originally, MutualArt envisioned the trust itself as a defined- contribution plan, similar to a 401(k) plan, but that proved infeasible.

Now, in order to qualify for tax benefits, MutualArt is pursuing a proposal under which artists would contribute pieces to a partnership in exchange for partnership interests. These interests could be contributed to an individual profit-sharing plan set up by each artist.

The catch: The tax code says "a profit sharing plan that is an individual account plan cannot hold a collectible," which includes artwork, says Howard Pianko, a lawyer with Epstein Becker & Green who is representing MutualArt on tax issues.

Pianko is trying to convince the IRS that an interest in the partnership would not be a collectible, but a security, like stocks or mutual fund shares.

In a letter to the IRS, he argued that "The interest is not a collectible because it's not an interest in a specific work of art," he says. "A gold coin is a collectible. An interest in a gold mine is not a collectible."

The IRS would not comment.

If the IRS agrees that the partnership interest is not a collectible, MutualArt then would need to register the partnership interests as securities with the Securities and Exchange Commission.

It also would need the U.S. Department of Labor to grant an exemption to the prohibited transactions rule. That rule essentially says that if a manager is controlling a pool of assets that are being held in a profit sharing plan, that manager cannot personally benefit from transactions made in the fund.

Because MutualArt manages the trusts and earns 20 percent when a piece is sold, it would run afoul of that rule, unless the labor department granted an exemption, says Pianko.

In a proposal submitted to the Labor Department, "We said there would be an independent committee to approve decisions," Pianko says. That proposal was withdrawn pending resolution of the IRS issue.

"There ought to be a way to make something like this work, but it certainly runs up against a variety of concerns under current law," says Iwry, the pension expert.

Stein, the law professor, says, "Ultimately, if the agencies are sympathetic and don't want to put roadblocks in front of them, the legal issues are not insurmountable."

If the plan did succeed, when an artist gave a piece to the partnership, its value would be treated as income, but the income could be offset if the artist contributed the partnership interest to the profit sharing plan, where it could grow tax deferred.

The artists would have to observe the same annual contribution limits that apply to other tax-deferred profit sharing plans.

- Kathleen Pender

EXHIBIT 11

Arts & commerce in a single frame

THE ECONOMIC TIMES

Apr 5, 2006, The Economic Times

MUMBAI: The idea is unique. And though it may sound philanthropic, the Artist Pension Trust (APT) is definitely not one. It is a barter-based mutual fund, definitely the first of its kind, which believes that artists all over the world share one thing — lack of cash but not of work, specially their own.

So, APT became the first global commercial company to have artists as their clients. "It is simple. It works like a bank, except that instead of money you deposit works of art to secure your own future," says David Ross, president of APT, who is in Mumbai to set up the APT here after setting up trusts in Berlin, London, Los Angeles, Mexico City and New York.

Prior to heading APT, Mr Ross was the former director of the Whitney Museum of American Art and the San Francisco Museum of Modern Art. The agenda as can be seen is international and each separate fund will have 250 artists, selected by a curatorial committee.

It was conceived and introduced by MutualArt, USA, an independent company established in '03, to develop new financial service products for the art world.

MutualArt will provide the brokerage services to APT in managing the art works, including art handling, loans, storage, shipping and exhibition at museum quality standards, conservation and insurance and publications and communications over the lifespan of each Trust.

"The average cost per year of running each Trust is $200,000," says Mr Ross. With the global art market booming the way it is, there is no dearth of investors, he adds.

For APT Mumbai, which will cover India, Nepal, Pakistan, Bangladesh and Sri Lanka, the curatorial committee will consist of director Jai Danani, Sharan Apparao, Shireen Gandhy, Peter Nagy, David Ross and Czaee Shah. Each year, 50 artists will sign an agreement for five years, with the total trust consisting of 250 artists.

The list of artists for the APT Mumbai is not yet out. While the above committee is the final word, the artists also have a say in the inclusion of their contemporaries. As the trust grows, recommendations would also be welcome. While the artists do sign an agreement, Mr Ross emphasises that APT is not a government body nor is bound by too many rules.

Flexibility is the key. The issues involved are creative after all and the whole focus is to provide a financial risk cover so as to leave the artists free to be creative. For each artist in the Trust, the aim is to totally contribute 20 works of art, which are chosen after a consultation with the other Trust members and the committee on the basis of the quality of the work.

APT will store the work and collectively decide, based on market movements, as to the right time to sell the work. Here, Mr Ross is keen to explain that the dealer and the gallery who handle the artist's interests are not in conflict with APT because when the art is sold, the dealer benefits too in terms of a percentage.

From the work sold, 40% goes to the artist (the work remains in the artist's name), 40% goes to the pool of the Trust and is distributed prorata among all the artists and the remaining 20% will be subject to certain

holdback, distributed as a management fee to a subsidiary of MutualArt.

The artists have the choice to follow APT's suggested strategy of contribution of works of art over the period of the two decades. "We do have a strategy which can work in their favour, but then they are not tied down to this.

They have to contribute 20 works of art over a 20-year period, which gets them a full share," explains Mr Ross, who says it is a programme of mutual success. "There are 30,000 new art students coming out of art school in America every year. It is a good time to be an artist," he concludes.

- Nandini Raghavendra

EXHIBIT 12

Fund frees artists from market vagaries

FT.com
FINANCIAL TIMES

Apr 10, 2006, Financial Times

Karl Haendel was flattered when he was asked to contribute art works to the Artist Pension Trust, a venture capital-style fund for emerging artists; then the Los Angeles-based artist became suspicious.

"It was a mix of skepticism and enthusiasm," recalls Mr Haendel of the 2004 dinner with David Ross, the former director of the Whitney Museum of American Art and president of APT, as the fund is known. "They told me I was one of the first contacted [in Los Angeles] so they used some flattery. But I thought I could end up getting screwed by this."

In the end, Mr Haendel, 29, who currently has a solo show at Los Angeles' Museum of Contemporary Art, agreed to be part of the APT-LA fund. He reasoned that 20 works over 20 years – the fund's main requirement – was reasonable for the potential upside and financial security the fund promised. "I joined up on the idea side," he says. "Artists don't have anything to fall back on. I've seen it with older artists who have been subject to the capriciousness of the market."

Mr Haendel's reaction was typical of the profound skepticism that MutualArt, the holding company for the city-specific APT funds, has faced from the artists it has approached. But three years into the project, the idea behind it is looking viable – and profitable for all the parties involved.

Building on the recent success of Asian art at auction, MutualArt is opening new funds this month in Beijing and Mumbai. Later this year, Bangkok and Mexico City will follow. It also claims to be building towards critical mass in its New York, London, Los Angeles and Berlin funds, with about 260 artists signed up. When a fund reaches 250 artists or five years it is closed and a new one is opened in that city.

"We are borrowing concepts from venture capital funding – you don't leave it open too long because you have too much information," says Dan Galai, MutualArt's executive vice-president of finance and an expert in options pricing and risk management. "The idea is to have the artists on the same line with the same amount of uncertainty."

The concept arose in 2003 when Moti Shniberg, the Israeli founder, started thinking that artists were bartering their works for various services but were still being excluded from the financial security traditional workers get. He launched the first fund the next year.

"The issue was, how could we offer something unique to artists on a global basis?" says Mr Galai. "The philosophy is to allow up-and-coming artists to establish financial security and risk diversification. We want to do risk diversification across time and across artists. As a management company it is also across location for our investors."

Those 40 to 50 investors receive 20 per cent of the profits when a work is sold, plus fees for storing the art. The artist whose work it is receives 40 per cent of the price. The other artists in that fund share the remaining 40 per cent with a considerably larger portion going to those who have been in the fund the longest, a provision meant to encourage artists who have become famous to keep contributing works.

"It is defined contribution, not defined benefits," says Mr Galai. "This is the first plan to provide them with long-term savings." APT will encourage the artists to roll the proceeds into an IRA managed by a third party.

In this sense, APT serves opposite ends of the financial spectrum: investors who are wealthy enough to wait five to 10 years – the point where APT will begin selling works – to see any return on their money and artists who otherwise may have had no financial security whatsoever. For artists, the selling point is that those who become famous will receive an additional boost from the sale, while those whose work does not have the same commercial appeal will have a safety net.

Mr Galai says the model for investors is conservative: 10 per cent of the artworks are projected to drop to zero and 50 per cent will sell for under $20,000. Only 10 per cent are expected to fetch more than $250,000.

"We only need 1 per cent of superstars in each fund to get to the numbers we set," he says. "It's statistics. With 250 artists we think we have sufficient diversification."

He expects each fund to go to $50m-$60m in value. Currently, the 500 works MutualArt holds have an average value of $10,000, or $5m, compared with the $6m the initial investors put up.

Mr Haendel's skepticism is not confined to MutualArt but extends to his fellow artists. His works are selling now for $3,000 to $30,000, and he says he is giving representative works to APT. However, he wonders whether other artists are holding up their end of the bargain. "One thing I'm worried about is artists might give art in bad faith," he says. "They're giving a couple of small works. That could dilute the quality."

Pamela Auchincloss, director of NY-APT, denies this, saying APT has already rejected works for its Los Angeles and New York funds. And the selection committees she oversees in New York and Mexico City serve both to vet new artists and prevent APT members from foisting inferior works on the fund. That said, APT is not looking to take the best works, which she says should be in the market building the artist's reputation.

"Our defining rubric is artists of promise," she says. "It's not an exhibition history. I have a number of artists who are just finishing their MFAs; they have something we believe is uniquely promising."

Ms Auchincloss, who is also an exhibition consultant, adds: "The art world is one of the largest, unregulated markets by any standard... I'd argue this is not conflict of interest, it is confluence of interest."

If Mr Haendel is any indication, the fund is choosing well. He has contributed two works so far but one "Nelson Mandela Sings the Blues" is currently on display at his LA MoCA show.

"The art market is good now but there could be fluctuations. Who knows where we're going to be in 20 years?" says Mr Haendel. "I may not have a career in 20 years. These things aren't predictable."

- Paul Sullivan in New York